

BUSINESS DEVELOPMENT PROGRAM FOR SMALL AND MEDIUM-SIZED ENTERPRISES

(PR-0100)

EXECUTIVE SUMMARY

Borrower:	Republic of Paraguay	
Executing agency:	Ministry of Industry and Commerce (MIC)	
Amount and source:	IDB (OC):	US\$ 10.0 million
	Local:	US\$ 2.5 million
	Total:	US\$ 12.5 million
Financial terms and conditions:	Amortization period:	20 years
	Grace period:	4 years
	Disbursement period:	4 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	currency pool
Objectives:	<p>The program's objective is to help boost the competitiveness of Paraguayan small and medium-sized enterprises (SMEs) through the development of a strategy aimed at: (i) making business development services (BDS) that are appropriate for this type of enterprise more relevant, efficient, and sustainable; and (ii) promoting private-sector participation in the development of policies and strategies to improve key aspects of their economic environment.</p>	
Description:	<p>The program will be structured around three components:</p> <p>(a) The first component—<i>promotion of demand for BDS</i>—will seek to stimulate SME investment in business development services. In this regard, actions to raise awareness and disseminate information will be supported, as well as technical and financial assistance for the preparation of business diagnostic assessments. In addition, a BDS cofinancing facility will be established, consisting of administration of nonreimbursable contributions to assist SMEs in the implementation of their competitiveness development plans.</p>	

- (b) A second component aims to *strengthen and expand the supply of BDS* for SMEs. It seeks to energize the response of existing BDS providers to meet the demand that would be generated by the program's activities in that area and to strengthen the supply of BDS in terms of variety, quality, and efficiency of the products and services aimed at SMEs. To this end, activities will be financed to stimulate the transfer of international know-how to domestic providers (beneficiary providers) and to promote and facilitate the latter's investment in the development of new and/or better products and services for SMEs.
- (c) The third component—*strengthening SME sector support mechanisms*—includes actions to: (i) facilitate a process of foresight and public-private strategic dialogue on national priorities with regard to competitiveness that seeks to construct a national agenda on competitiveness; (ii) fill the void in the pertinent information market for the SME sector; and (iii) support the development of an integrated program evaluation system.

**The Bank's
country and
sector strategy:**

The origin of the proposed program is the Bank's 1997 strategy for the development of SMEs in Paraguay, a document that had been widely discussed with government authorities, business associations, nongovernmental organizations, and international agencies. The program is also consistent with the Bank's country strategy (document GN-2118-1), which is geared to: (i) supporting efforts to achieve sustained and sustainable economic growth in the context of regional integration; and (ii) contributing to the modernization of the country's institutions in the context of a democratic system in the process of consolidation. The country paper placed emphasis on supporting competitiveness through actions to boost, among other things, the development and modernization of the productive sector, particularly microenterprise and small and medium-sized business.

**Environmental
and social
review:**

The Committee on Environment and Social Impact approved the operation's profile II at its Technical Review Group meeting 29-99 and its recommendations are reflected in this document (paragraphs 4.12 and 4.13) and in the Operating Regulations.

Benefits:

Enhancing the productive capacity of SMEs will create better conditions for strengthening formal jobs in the private productive sector and for increasing the production of goods and services. Support for productive activities that lead to higher efficiency will also make it possible to reduce the use of natural resources and the emission of pollutants, with beneficial impacts on the environment.

The program's activities are expected to increase the number of enterprises that use BDS; increase beneficiary enterprises' investment in BDS; improve the capacity of SMEs to select, hire, and control the provision of BDS; and improve the quality, variety, and relevance of BDS supply. These results are expected to have a positive impact on productivity, which would be reflected in increased sales and reduced production costs per unit of sale for beneficiary enterprises.

Risks:

There is a risk that effective demand for cofinancing resources on the part of SMEs and beneficiary providers will fall below estimated demand. To offset this risk, components 1 and 2 both include activities to disseminate information, raise awareness, and provide guidance to enterprises and providers. The possible response time of beneficiaries has been taken into account in the schedule of activities, in the resource disbursement projections, and in the assumptions included in the logical framework.

To offset the risk of institutional weakness that characterizes the Paraguayan public sector, a three-tier institutional setup is proposed in which the State will handle the functions of leadership, coordination, monitoring, and control, while delegating the operational management to a private-sector entity. At the first level, the function of selecting and hiring the pertinent BDS in each case is delegated to the beneficiaries—SMEs and providers of BDS.

In component 3, there is a risk that the activity to promote private-sector participation in setting a national competitiveness agenda will not have the desired impact on public policy. To offset this risk, the establishment of a program consultative council is being proposed, which would be comprised of executive-level participants from the country's most representative business associations. Specific activities to train the leaders who would participate in the dialogue process are also planned.

Special contractual clauses:

Conditions precedent to the first disbursement: (i) evidence that, pursuant to Annex C to the loan contract, the process of selection and contracting of the program management agency has begun and that the bid opening process referred to in paragraph 9.07 of that annex has been undertaken (paragraph 3.7); (ii) entry into force, through the pertinent administrative decree, of the program's Operating Regulations (paragraph 3.10); (iii) evidence that the program consultative council has been set up (paragraph 3.5); (iv) evidence that the program coordinating unit has been legally established, and has been endowed with the resources and staff necessary for program functions to be performed (paragraph 3.6); and (v) presentation of the annual operating plan for year one of execution (paragraph 3.16).

The startup of the information referral system with at least 12 providers and 24 products, along with a system of reference prices, is a condition precedent to disbursement of resources from the BDS cofinancing facility. Another condition for disbursement of cofinancing resources is that an agreement has been concluded with a commercial bank in which the resources of the cofinancing facilities and the SME and beneficiary provider contributions will be deposited into separate accounts (paragraph 2.4).

Poverty-targeting and social sector classification:

This operation does not qualify as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704).

Exceptions to Bank policy:

None.

Procurement:

The procurement of goods anticipated for program execution that are financed in whole or in part with loan proceeds will be carried out pursuant to standard Bank procedures, as set forth in Annex B to the loan contract. The procurement of goods for amounts equal to or above US\$350,000 equivalent will be done through international competitive bidding. The program does not call for construction of civil works or new buildings.

The selection and contracting of consulting services financed with loan proceeds will follow standard Bank procedures as set forth in Annex C to the loan contract. Service contracts involving amounts equal to or above US\$200,000 equivalent will be selected through an international open call for proposals. For the selection and contracting of program management services, the procedures set out in document GN-1679-3 will be followed and, if the contracting method based on quality and price is used, the relative weight of price as an evaluation criterion shall not exceed 20%.

For the procurement of goods and services by SMEs and beneficiary providers with resources from the cofinancing facilities, the following rules will apply: (i) business development services will be contracted by SMEs and BDS providers, from providers registered in the program's information referral system; (ii) for procurement of goods not expected to exceed US\$4,500 equivalent for each enterprise, the method of shopping will be used, whereby a minimum of three quotes will be required prior to each purchase, except in cases justified to the Bank where the possibility of obtaining such quotes does not exist or it is recommended, for technical reasons, that a specific product be purchased. SMEs and BDS providers will establish competitive

methods for procurement of goods and related services that comply with eligibility requirements set forth in the loan contract. Procurement of goods and services should be conducted at market prices and the nature thereof should be consistent with program needs.